REBUTTAL TESTIMONY OF

NEVILLE O. LORICK

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2002-223-E

Q. PLEASE STATE YOUR NAME.

A. Neville O. Lorick.

Q. MR. LORICK, HAVE YOU ALREADY GIVEN TESTIMONY IN THESE PROCEEDINGS?

A. Yes, I have.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. In my rebuttal testimony, I respond to intervenor witnesses Nicholas Phillips, Donald Coates and Glenn Watkins who have: 1) made assertions regarding the appropriateness of our proposed recovery on our Jasper Generation Project in this docket; 2) raised issues regarding costs incurred as a consequence of our participation in the GridSouth RTO project; and 3) questioned the appropriateness of our recovering the costs of our Charleston and Columbia thirty-year franchises. Mr. Marsh and Dr. Wright also address aspects of these issues in rebuttal testimony as well.

Q. PLEASE ADDRESS THE JASPER GENERATION PROJECT ISSUES.

A. In his testimony, the witness for the Consumer Advocate, Mr. Phillips, asserts that it is not appropriate to begin to recover capital costs incurred in our Jasper Project because the facility is not yet on line and is larger than "currently required." I disagree with both of his assertions.

First, the methodology the Company has proposed for including these costs in rate base has been recognized and approved by the Commission in connection with the Company's Cope Generation Project. What is being proposed here is no different from what was done in that case. The recovery procedures followed with the Cope Project worked well and were beneficial to our customers. Mr. Marsh will address this issue in more detail in his rebuttal testimony.

Second, I would point out that in the present case, we have only included expenditures for the Jasper Project through December 31, 2002, which are approximately 58% of the project costs. Therefore, even if one accepts Mr. Phillips' analysis, which I do not, the Company is not attempting to recover, in this docket, what he would consider the "overbuilt" portion of the project.

I also wish to emphasize that the Jasper facility is sized and scheduled to timely and economically meet generation needs of our customers. A combined-cycle generation plant of this size requires at least thirty-eight (38) months to plan and construct. Jasper is scheduled to be on line in May of 2004. Let me refer you to my rebuttal Ex. No. __(NOL Rebuttal Ex.–1). This exhibit was sponsored by

Dr. Joseph Lynch, the Company's manager of Resource Planning, and entered in the record in a proceeding before this Commission in Docket No. 2001-420-E. The exhibit reflects the MW supply shortfall the Company would experience in upcoming years without the Jasper facility. If the Jasper project had only been sized for the first two units (449 MW), you can see from the chart that we would have had a generation shortfall by 2006, approximately two years after the units had come on line. In fact, we would have had to begin ordering equipment for the next phase of construction before we completed the first phase of the Jasper project to avoid this problem. If we had followed that process, we would have lost the economies of scale which we have previously discussed with the Commission. Please see the Commission reference to my testimony in Docket No. 2001-420-E in Order No. 2002-19 at page 4-5, and the Commission finding regarding economies of scale, at page 11. Those economies will result in a savings of approximately $111,125,000. Moreover, we have sold 250 MWs off system, which more than offsets any impact to and, in fact, benefits our customers. We also have the ability to recall this power at any time in the event it is needed for our native load, which is a significant advantage.

Q: IN YOUR OPINION, WAS THE GRIDSOUTH PROJECT REASONABLY AND PRUDENTLY MANAGED?

A. In my opinion, the GridSouth project was reasonably and prudently managed.

The expenses related to the GridSouth project were incurred after the date when the parties formally agreed to pursue the GridSouth project (May 16, 2000). On May 16, 2000, the partners began tracking the costs of the GridSouth and drafting the documents to be filed at the Federal Energy Regulatory Commission (FERC). The effort to develop the actual computer software and facilities to operate GridSouth began in late October/early November of 2000. Commencement at that time was required for the project to have a reasonable chance of completion within the December 15, 2002 time frame required by FERC in its Order 2000.
All decisions concerning GridSouth were made by the GridSouth Management Committee. The Management Committee was composed of members from each sponsoring utility, and unanimity among the committee members was required for all decisions.

SCE&G, through the Management Committee, carefully evaluated every aspect of the project in an attempt to control cost. Each of the many decisions made during the course of the project was made with an eye toward reducing costs to customers in the long term. Some of the principal cost control decisions were as follows:

- Selection of proven software solutions that were both industry standard solutions and that had been tested and proven by prior application;
- Careful negotiation of contracts and terms to include clear deliverables, milestones, and penalties for non-performance;

- Selection of personnel with proven experience in the jobs for which they were selected;
- Use of utility personnel to displace higher cost resources from outside contractors for the implementation project and related tasks;
- Negotiation of substantial economic development incentives for locating the headquarters facility in South Carolina (the incentives, in fact, roughly equaled the cost of the facility);
- Establishment and maintenance of staffing levels appropriate for each stage of the development of the RTO;
- Deferment of any decision concerning implementation of real time balancing and congestion management until the need for such mechanisms could be cost justified;
- Integration of meter information and data flows from the existing utility control centers into the system operations computer system rather than reproducing metering and information flows independently;
- Selection of system operations software that was compatible with the system control software and information systems in use in the GridSouth member utilities;
- Attention to cost and benefits generally.

The project proceeded within budget and successfully maintained an aggressive timeline. Had regulatory policy remained supportive, GridSouth was on target to begin operations as a fully functional RTO on April 1, 2002. When the FERC policies changed in the summer of 2001, the management team prudently scaled back operations to allow completion of committed and ongoing software and other development projects while minimizing costs and keeping options open. The key operational and other software applications have been completed and remain available for use in any future RTO implementation.

Q. THE WITNESS FOR THE SOUTH CAROLINA ENERGY USERS COMMITTEE QUESTIONS WHETHER THE COMPANY'S COSTS ASSOCIATED WITH THE COLUMBIA AND CHARLESTON FRANCHISES ARE "USED AND USEFUL." PLEASE COMMENT.

A. The two municipalities, Charleston and Columbia combined, represent approximately 17% of the customers on SCE&G's system. I am confident that obtaining 30-year franchises for service to these two municipalities is in the best interests of our customers and our Company.

SCE&G and its customers would suffer if the City of Columbia did not remain on SCE&G's system. A full scale municipalization of electric service by the City of Columbia would have resulted in fragmentation of SCE&G's system, loss of the integrity of the Company's service territory, and loss of economies of scale associated with continued service in the City of Columbia. Moreover, service in the City of Columbia contributes approximately $80 million per year of net margin revenue. The impact of such a loss to the Company is self-evident.

For the similar reasons, retaining the City of Charleston on SCE&G's electric system provides important benefits to SCE&G and its customers, contributing approximately $72 million per year of net margin revenue. In addition, a key issue with the City of Charleston was service rights to Daniel Island, a recently annexed and rapidly developing area equal in size to the Charleston peninsula. Loss of service rights to Daniel Island was a clear possibility if the franchise negotiations were unsuccessful. As with Columbia, the loss of these service rights would be a serious loss to the economics of the system, particularly when compared to the cost of the franchise, as amortized over 30 years.

Mr. Phillips alleges that the costs of maintaining these franchises should be quantified with particularity in order for this Commission to include the Company's request into rate base. No studies were conducted to quantify the impact of such an event for several reasons. The costs of not negotiating a mutually agreeable franchise with either city are difficult to quantify. By necessity, such a study would be highly subjective and would depend on subjective assumptions. This is true, in part, because multiple outcomes were possible in the event that the parties could not agree on a new franchise. For example, if the outcome were municipalization the assumptions would include assumptions concerning the timing of municipalization, the precise facilities and areas municipalized, the compensation paid by the municipality for the facilities taken, the cost of reintegration of the system, the ongoing development of the municipality (which would include projected density and usage patterns), the opportunity to economically employ the generation and other resources stranded by loss of service to the municipality, and the cost of legal and other services needed to protect the Company’s interest in a municipalization fight. For such an analysis to be complete, it would also have to account for the cost to the system of the attention that SCE&G would have to devote to the public debate and litigation concerning municipalization, and the effect of a contentious and public dispute between city government and its lead utility on economic development in the concerned area of service. While these costs would likely be significant, any quantification of them would be speculative at best.

In the final analysis, a quantitative study is not needed to conclude, as a matter of sound business judgment, that the costs of failing to negotiate satisfactory franchises would far exceed the costs paid for the current 30 year franchises, particularly when the costs of these franchises are amortized over their lives.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.